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APRIL/MAY 1998

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The Practicing CPA

INTERNET RESEARCH HELPS A SOLE PRACTITIONER

I was talking with a good friend and fellow practitioner a few months ago about how I had solved some client issues by going out on the Internet to locate information. Now, I know my friend and a number of other small practitioners were early enthusiasts of online research. (See "A Funny Thing Happened Once I Got to the Forum" in the September 1996 *Practicing CPA*.) I hooked up on the Internet just last year, however, and can't help but be excited about what is available there to help me with my practice.

Exploring the World Wide Web

I began my World Wide Web forays via the America Online (AOL) interface. These efforts taught me how to log on, what to look for, how to search, and, basically, gave me my wings to try other search engines. There are several business forums on the AOL site, and I started my Internet research activities by looking at the business planning tools provided by CCH, a company with which I am familiar.

I had just been asked to prepare a business plan for a company contemplating the purchase of a branch office. The reference materials I had in my possession were a few years old, and my CD-ROM reference library is incomplete at this time. Traditionally, I would research at the local accounting library. Instead, with the electronic knowledge available, I found the business plan outline on CCH's site. All I had to do was print it and follow the steps in this excellent tool to develop a comprehensive business plan. The information I acquired enhanced my knowledge and the detail on the preparation of a plan.

I have also accessed the AOL accounting and legal workplace forums. These sites enable you to post questions and receive answers from your peers and to generally peruse an exchange of information on specific topics. This is a way to become aware of a particular area that you may find of interest.

For example, several of my clients have pension and/or profit sharing plans. If I need to conduct legal research or find an answer to a question not in my reference books, I can obtain some direction from other professionals via the legal forum.

Recently, I was in the process of updating a client's software to be year 2000-compliant. I was considering a particular company to perform the detailed customization work and needed references. The client experienced delays and unsatisfactory

results with his previous choice, and I wanted to avoid that situation.

For this engagement, as an additional reference, I was able to E-Mail the software company's regional service director. The office quickly confirmed that the consultants from this firm had taken the necessary educational courses and were certified to perform the program changes required. I was, therefore, comfortable in hiring this company, and the situation is working well for the client and the consultant.

As I mentioned before, I have now tried other search engines, such as Yahoo and Excite. I obtained a publication that indicates which search engines are best for what areas and I select accordingly.

One search led to a *Journal of Accountancy* article that was pertinent to me because of an estate planning engagement. I located the author's address and received a response from him via E-Mail. This information would never have been obtained by me in the traditional manner.

I still use a nearby college library for tax research and network regularly with local CPAs. Nevertheless, as a research resource, the Internet is incredible for sole practitioners and small CPA firms. It has enabled me to expand my network of contacts nationally and globally. It has enhanced my professionalism and provided the opportunity to expand my practice by utilizing current technology and the World Wide Web. In short, the Internet helps make today's desired lifestyle possible for this sole practitioner. ✓

—by **Karen L. Delaney, CPA, Troy, Michigan, Delaney CPA@aol.com**

Some Online Research Sites to Check

- www.taxsites.com is a comprehensive listing of tax, A and A, and business advisory site links.
- www.ssa.gov provides answers to uncommon questions on Social Security.
- www.inc.com/virtual consult offers credit reports, the Thomas Register, trademark services, and more.

Also, the CPALinks section of AICPA online (www.aicpa.org) is a good place to begin an online search.

TOP FIVE MAP ISSUES

Finding, hiring, and retaining quality staff is the number one practice management issue for CPA firms, according to the 1998 Top Five MAP Issues poll conducted by the PCPS management of an accounting practice (MAP) committee.

"Staffing was a major issue twelve months ago and probably twelve months before that," says Gary S. Shamis, a Solon, Ohio, practitioner, who chairs the PCPS MAP committee. Mr. Shamis thinks the problem has escalated dramatically in the last year. "With the employment market remaining tight, firms need to explore new compensation and benefits strategies in order to recruit and retain employees," he says.

The PCPS MAP committee, working with state society MAP representatives, asked participants to rank their top five practice management issues. Over 50 percent of the respondents chose staffing as one of their top five, and half of those ranked it as the number one issue. Staffing was followed by keeping up with technology, capitalizing on consulting opportunities, marketing, and new service development.

This is the second consecutive year that the MAP committee has conducted the "Top Five MAP Issues" poll and, again, staffing topped the list. Technology and consulting moved up in the rankings from a year ago, and marketing and service development are new to the list.

"The emergence of marketing as a top five issue, along with new service development and consulting, is yet another indicator of the dynamic changes being driven by the marketplace," says Mr. Shamis. "Traditional methods of practice are yielding to innovative new ideas and calculated risk taking as the key business strategies of many firms."

The PCPS MAP committee uses the results of the poll to help guide the development of new program initiatives, such as benchmarking studies, videos, articles*, online communications, and live presentations that directly address the profession's most relevant practice management issues.

To participate in the 1999 poll, contact your state society MAP representative or Anita Meola, PCPS/MAP staff liaison, via FAX (800) 329-1112 or E-MAIL ameola@aicpa.org with your name and address. Ballots for the 1999 Top Five MAP Issues poll will be distributed in May. ✓

(*The upcoming *Practicing CPA* will explore the top five MAP issues in detail.)

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HIGHLIGHTS OF RECENT PRONOUNCEMENTS

FASB Statement of the Financial Accounting Standard Board

No. 132 (February 1998), *Employers' Disclosures about Pensions and Other Postretirement Benefits*

- Amends FASB Statement nos:
 - 1) 87, *Employers' Accounting for Pensions*;
 - 2) 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*;
 - 3) 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*.
- Revises employers' disclosures about pension and other postretirement benefit plans.
- Standardizes the disclosure requirements for pensions and other postretirement benefits to the extent practicable.
- Requires additional information on changes in the benefit obligations and fair values of plan assets that will facilitate financial analysis.
- Eliminates certain disclosures that are no longer as useful as they were when FASB Statement nos. 87, 87, and 106 were issued.
- Suggests combined formats for presentation of pension and other postretirement benefit disclosures.
- Permits reduced disclosures for nonpublic entities.
- Effective for fiscal years beginning after December 15, 1997. Earlier application is encouraged.

GASB Statement of the Governmental Accounting Standards Board

No. 32 (October 1997), *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*

- Rescinds GASB Statement no. 2, *Financial Reporting of Deferred Compensation Plans Adopted under the Provisions of Internal Revenue Code Section 457*.
- Amends the investment guidance for Internal Revenue Code (IRC) Section 457 plans in GASB Statement no. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.
- Establishes accounting and financial reporting standards for IRC Section 457 deferred compensation plans of state and local governmental employers.
- Effective for financial statements for periods beginning after December 31, 1998, or when plan assets are held in trust under the requirements of IRC Section 457, subsection (g), if sooner.

Statement on Auditing Standards

No. 85 (November 1997), *Management Representations*

- Supersedes:
 - 1) SAS no. 19, *Client Representations*;

- 2) Auditing Interpretation no. 2 of SAS no. 19, entitled "Management Representations When Current Management Was Not Present During the Period Under Audit."

- Amends SAS no. 58, *Reports on Audited Financial Statements*, by expanding the procedures a predecessor auditor should perform when asked by a former client to reissue his or her report on the financial statements of a prior period.
- Establishes a requirement that the independent auditor obtain written representations from management as part of an audit of financial statements performed in accordance with generally accepted auditing standards.
- Provides guidance concerning the representations to be obtained.
- Includes an illustrative management representation letter and an appendix containing additional representations that may be appropriate to be included in a management representation letter in certain situations.
- Effective for audits of financial statements for periods ending on or after June 30, 1998. Earlier application is permitted.

Statements of Position

No. 98-3 (March 1998), *Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards*

- Supersedes:
 - 1) SOP 92-9, *Audits of Not-for-Profit Organizations Receiving Federal Awards*;
 - 2) Part VII, "Audits of Federal Financial Assistance," of the AICPA Audit and Accounting Guide *Audits of State and Local Governmental Units*.
- Provides guidance on the auditor's responsibilities when conducting a single audit or program-specific audit in accordance with the Single Audit Act Amendments of 1996 and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (June 1997 revision).
- Provides an overview of the auditor's responsibilities in an audit of federal awards.
- Describes:
 - 1) The applicability of the Single Audit Act Amendments of 1996 and OMB Circular A-133;
 - 2) The auditor's responsibility for testing and reporting on the schedule of expenditures of federal awards;
 - 3) The auditor's responsibility for considering internal control and for performing tests of compliance with applicable laws, regulations, and program compliance requirements under generally accepted auditing standards, *Government Auditing Standards*, and OMB Circular A-133;
 - 4) The auditor's responsibility for reporting and provides examples of the reports required by *Government Auditing Standards* and OMB Circular A-133;
 - 5) The auditor's responsibility for testing and reporting

in a program-specific audit.

■ Incorporates guidance from the following documents:

- 1) The Single Audit Act Amendments of 1996 and, Circular A-133;
- 2) SAS no. 74, *Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance*;
- 3) *Government Auditing Standards* (1994 revision);
- 4) The OMB Circular A-133 *Compliance Supplement* (June 1997 revision).

■ Effective: The requirements of the Single Audit Act Amendments of 1996 and OMB Circular A-133 are effective for audits of fiscal years beginning after June 30, 1996. This SOP also includes auditing guidance through SAS no. 85, *Management Representations*. The effective dates of this auditing guidance should be applied as provided for in the related literature. This SOP does not change the effective dates of the auditing standards, the Single Audit Act Amendments of 1996, and OMB Circular A-133. The remaining provisions of this SOP are applicable to audits of fiscal years beginning after June 30, 1996, in which the related fieldwork commences on or after March 1, 1998. Earlier application is encouraged.

No. 98-2 (March 1998), *Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include Fund Raising*

■ Amends existing guidance in AICPA Audit and Accounting Guides *Health Care Organizations, Not-for-Profit Organizations* (which was issued in August 1996 and supersedes SOP 87-2, *Accounting for Joint Costs of Informational Materials and Activities of Not-for-Profit Organizations That Include a Fund-Raising Appeal*, because the provisions of SOP 87-2 are incorporated into the Guide), and *Audits of State and Local Governmental Units*.

■ Requires:

- 1) If the criteria of purpose, audience, and content as defined in this SOP are met, the costs of joint activities that are identifiable with a particular function should be charged to that function and joint costs should be allocated between fund raising and the appropriate program or management and general function;
- 2) If any of the criteria of purpose, audience, and content are not met, all costs of the activity should be reported as fund raising costs, including costs that otherwise might be considered program or management and general costs if they had been incurred in a different activity, subject to the exception in the following sentence. Costs of goods or services provided in exchange transactions that are part of joint activities, such as costs of direct donor benefits of a special event (for example, a meal), should not be reported as fund raising;
- 3) Certain financial statement disclosures if joint costs are allocated;

- 4) Some commonly used and acceptable allocation methods are described and illustrated although no methods are prescribed or prohibited.

■ Encourages, but does not require, that the amount of joint costs for each kind of joint activity be disclosed, if practical.

■ Applies to all nongovernmental not-for-profit organizations and all state and local governmental entities that solicit contributions.

■ Effective for financial statements for years beginning on or after December 15, 1998. Earlier application is encouraged in fiscal years for which financial statements have not been issued.

No. 98-1 (March 1998), *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*

■ Provides guidance on accounting by all nongovernmental entities, including not-for-profit organizations, for the costs of computer software developed or obtained for internal use and provides guidance for determining whether computer software is for internal use.

■ Clarifies that the costs of computer software developed or obtained are costs of either (a) software to be sold, leased, or otherwise marketed as a separate product or as part of a product or process, subject to FASB Statement no. 86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed*; (b) software to be used in research and development, subject to FASB Statement no. 2, *Accounting for Research and Development Costs*, and FASB Interpretation no. 6, *Applicability of FASB Statement No. 2 to Computer Software*; (c) software developed for others under a contractual arrangement, subject to contract accounting standards; or (d) internal-use software, subject to this SOP.

■ Provides guidance on:

- 1) When costs incurred for internal-use computer software are and are not capitalized;
- 2) Accounting for the proceeds of computer software developed or obtained for internal use that is marketed;
- 3) Accounting for computer software that consists of more than one component or module.

■ Identifies the characteristics of internal-use software and provides examples to assist in determining when computer software is for internal use.

■ Effective for financial statements for fiscal years beginning after December 15, 1998. Earlier application is encouraged in fiscal years for which annual financial statements have not been issued.

No. 97-3 (December 1997), *Accounting by Insurance and Other Enterprises for Insurance-Related Assessments*

■ Effective for financial statements for fiscal years beginning after December 15, 1998. Earlier adoption is encouraged.



PCPS was established in 1977 in response to government's call for increased regulation of the accounting profession. Over the past 20 years, PCPS has continually worked to improve the quality of CPA firms services through self-regulation and act as an advocate for all local and regional firms in the profession.

Much has changed since 1977, however. The marketplace now has new demands and PCPS has reduced its emphasis on self-regulation and gravitated toward adding value to local practices. Today, PCPS is an alliance of more than 7,000 local and regional CPA firms from every US state and territory that continues to stand for leadership, advocacy and quality, while providing practical tools and resources designed to boost the success of its member firms.

As an organization, PCPS is committed to

- Seeking permanent solutions to the problems posed by applying uniform technical standards to all types of client.
- Presenting an organized viewpoint to the AICPA, its technical committees, and other standard-setting bodies, consistent with the needs of PCPS firms and their clients.
- Providing advice on increasing and improving services to member firms.

The PCPS Mission and Objectives

The PCPS mission is straightforward: to improve the quality of services and operating success of PCPS member firms. The name PCPS/Partnering for CPA Practice Success, The AICPA Alliance for CPA Firms reflects this mission by accurately identifying the role PCPS plays in its members' futures. PCPS will provide targeted programs and services that will help CPA firms succeed in a dynamic marketplace.

The PCPS objectives are to improve the quality of services and operating success of PCPS member firms by

- Providing resources and information.
- Advocating firm adherence to the AICPA Code of Professional Conduct.
- Championing firm participation in an Institute-approved practice-monitoring program, to the extent required by AICPA bylaws.
- Encouraging firm personnel to participate in general and industry specific continuing professional education and other professional development activities that enable them to fulfill responsibilities assigned and satisfy applicable continuing professional education requirements.

Other important objectives are to differentiate member firms from non-CPA financial service providers, and provide a means for member firms to make known their views on professional matters, including the establishment of technical standards.

PCPS Organizational Structure

PCPS activities are governed by an executive committee that has senior technical committee status within the AICPA and authority to carry out these activities. Executive committee members include the chairperson or a representative from each committee reporting to the executive committee (see below), a representative from the AICPA peer review board, an executive director from a state CPA society, a chairperson, a vice-chairperson, and up to eight members at large.

PCPS Executive Committee

As the governing body of PCPS, the PCPS executive committee develops programs to help improve the quality of services and the operating success of PCPS member firms, and facilitates communication on technical issues and professional matters.

PCPS Small Firm Advocacy Committee

The small firm advocacy committee represents and acts as an advocate in all areas of practice for firms with ten or fewer professionals. The committee's focus is on issues, products and services in which the interest and needs of these firms might differ materially from those of other segments of the profession or in which their interests appear not to be adequately recognized.

PCPS Management of an Accounting Practice Committee

The management of an accounting practice committee supports CPA firms in providing the highest quality professional services. The committee provides resources and information to CPA firms in their endeavors to professionally and profitably compete in a changing environment and serves as an advocate on matters affecting firm management.

PCPS Technical Issues Committee

The technical issues committee monitors technical developments that could have a significant effect on private companies and the CPA firms that serve them and, when necessary, submits comments and recommendations in support of these firms. The committee communicates with standard-setting and regulatory bodies on technical developments when appropriate.

PCPS Advocacy Chronicle

PCPS plays a vital role as the advocate for the local and regional CPA firm. Here's an abbreviated listing of some of the milestones, to date.

1978

Successfully convinced the AICPA of the need to develop an auditing and accounting manual for use by local firms.

1979 to Present

Created the PCPS technical issues committee (TIC) to advocate the interests of local firms and their clients in the standards setting process. Since 1979, TIC has submitted over 300 comment letters and continues to fight for technical guidance that is understandable, current, easily located, and offers practical examples.

1983 to 1991

Actively promoted better understanding of the uses of Other Comprehensive Basis of Accounting (OCBOA) as an alternative to GAAP.

1987

TIC persuaded the AICPA to create the National Advanced Accounting and Auditing Technical Symposium (NAAATS) to enable local firm partners to obtain high-level education.

1991 to Present

Volunteered to pay production and distribution costs of the *Practicing CPA*, allowing AICPA members to continue to receive the publication free of charge.

1994 to Present

Created the small firm advocacy committee (SFAC) to serve as an advocate for firms with 10 or fewer professionals. SFAC continues to take a proactive stance in defending the interests of small firms and in seeking their opinions on AICPA, PCPS, and professional issues.

1995 to Present

Created tax information phone service (TIPS) in conjunction with the AICPA tax division. PCPS provided financial sponsorship of the developmental and first-year operating costs for TIPS.

1996 to Present

Created the AICPA Practitioners Symposium in response to the need for high-quality, low-cost CPE on a wide variety of technical and management topics for local firms.

1996 to 1997

Commissioned and sponsored a special study on standards overload with recommendations delivered to the AICPA board of directors.

PCPS Membership

Firms not yet enrolled in PCPS that wish to take immediate advantage of the many benefits of membership should complete and FAX the PCPS application on the last page of this supplement—now.

Further information on PCPS is available by calling (800) CPA-FIRM.

PCPS Resources

PCPS offers resources that can help you create new strategies, develop new products and services, and make your existing services better.

Member benefits include

- Marketing materials.
- Newsletter.
- Group purchasing/vendor discounts.
- Member exclusive on-line communication activities.
- International referral network.
- Opportunities for alliances/joint ventures with firms in specialized fields.
- Special meetings for members on management and professional issues.
- Member-only networking opportunities.
- Member-exclusive retirement program.
- Opportunities to serve on committees that support the alliance.
- Member directories.
- Practice management assistance.
- Special member-exclusive publications/videotapes.
- Technical practice aids.

Periodic "PCPS Balance Sheet" will describe new and continuing PCPS benefits.

PCPS Telephone Resources

As a PCPS member, you have a variety of programs and services available to you. Just call the following telephone numbers for information or answers to questions. AICPA and PCPS staff representatives will be pleased to lead you in the right direction, send you more information and answer your questions.

General PCPS information	(800) CPA-FIRM
PCPS/ Newkirk marketing materials	(800) 525-4237
AICPA conferences	(888) 777-7077
and AICPA publications }	option 1
TIPS	(888) 777-7077
(Tax Information Phone Service) }	option 3

PCPS Website information

The new PCPS is committed to providing the tools and resources to help member firms succeed. PCPS is also committed to making those tools and resources as accessible as possible. That's why the organization has created PCPS Online, the AICPA Alliance for CPA Firms Website. PCPS Online is designed to be your source for CPA firm practice management information on the World Wide Web.

With two separate access options — one for PCPS members, and one for the public — the PCPS website offers instant information. You can find out the latest news from PCPS committees, access member services or give bankers and lawyers your credentials as a member firm.

PCPS Online is organized to be user friendly. You can navigate through the site by topic or hyper-link directly to directories, forums and committee pages. You are invited to stop by at www.aicpa.org/pcps

THE BALANCE SHEET

PCPS Member Benefits (As of 12/31/97)	Your Savings
Complimentary AICPA General Audit Risk Alert <i>Updated annually. Helps increase the efficiency of your audit planning.</i> <i>Retail price: \$11.00/PCPS Members: Free</i>	\$11.00
Complimentary AICPA Compilation and Review Alert <i>Updated annually.</i> <i>Retail price: \$11.00/PCPS Members: Free</i>	\$11.00
PCPS Member Directory <i>Annual listing of all PCPS members is made available to banks and potential clients upon request.</i>	N/A
Complimentary Subscription to CPA Software News <i>Annual subscription (8 issues).</i> <i>Retail price: \$39.95/PCPS Members: Free</i>	\$39.95
Non-Qualified Retirement Program from ITT/Hartford <i>A low-cost, no-commission variable life insurance product that can be used to fund non-qualified partner retirement programs.</i> <i>Not available to non-members</i>	N/A
\$75.00 discount on the 1998 AICPA Practitioners Symposium <i>High quality, low cost CPE in a wide variety of subjects.</i> <i>Registration: \$675.00/PCPS Members: \$600.00</i>	\$75.00 per registrant
PCPS Member Reception at the 1998 Practitioners Symposium <i>PCPS members-exclusive networking reception with dinner and live entertainment.</i> <i>Not available to non-members/PCPS Members: Free</i>	N/A
PCPS Regional Roundtables and Town Hall Meetings <i>Annual opportunity to meet with leaders of PCPS and your PCPS colleagues to discuss pressing issues facing CPA firms and offer ideas and suggestions on how PCPS can assist its members with these challenges.</i> <i>Not available to non-members/PCPS Members: Free</i>	N/A
Small Firm 2000: Your Link to the 21st Century Videotape <i>Offers practical advice from small firm practitioners and other leaders of the profession to help position your firm to be successful in the next millennium.</i> <i>Not available to non-members/PCPS Members: Free</i>	N/A
10% discount on PPC/Boomer's Guide to Creating a Technology Budget <i>Toolkit to help you prepare a three-year technology budget for your firm.</i> <i>Retail Price: \$149.00/PCPS Members: \$134.10</i>	\$14.90
10% discount on PPC/Boomer's Guide to Creating a Technology Plan and Budget <i>A step-by-step guide to help you prepare your technology plan. Includes book, software template, video and one hour of telephone consulting with Boomer staff.</i> <i>Retail Price: \$495.00/PCPS Members: \$445.50</i>	\$49.50
Firm-on-Firm Review Directory Listings <i>Annual opportunity for PCPS firms that perform peer reviews to be listed in a directory which is sent to all CPA firms.</i> <i>Not available to non-members</i>	N/A
35% Discount on 1998 Top Ten Technology Opportunities: Tips and Tools <i>Annual publication from the AICPA providing in-depth coverage of the key technologies that will have the greatest impact on your business.</i> <i>Retail Price: \$19.95/PCPS Members: \$12.95</i>	\$7.00
Special Marketing Publications from Newkirk <i>Exclusive designs, discounted prices and lower minimum quantities for PCPS members.</i> <i>Not available to non-members</i>	N/A
Your Potential Financial Benefit from PCPS Membership	\$ 208.35 or more!

PCPS MEMBERSHIP APPLICATION

Name of firm or organization _____

Principal address _____

_____ Zip _____

Telephone _____ Fax _____

E-mail address _____ Website _____

1. Form of business entity ____ Sole Proprietorship ____ Partnership ____ Corporation ____ LLC ____ LLP ____

Other (please identify) _____

2. (A) Name of managing partner or equivalent (circle one) Mr./ Ms. _____

Telephone _____ Fax _____ E-MAIL _____

(B) Name of the person to contact at the firm concerning PCPS membership and other related matters _____

Mr./ Ms. _____

Telephone _____ Fax _____ E-MAIL _____

3. Number of offices ____ (If the firm has more than one office, attach a list of locations.)

4. Month in which the firm's (A) Fiscal year ends ____ (B) Education year ends ____

5. (A) Total number of proprietors, partners, shareholders and non-CPAs with parallel status ____

(B) Total number of CPAs included in the number reported in 5(A) ____

6. Total number of CPAs (including partners, proprietors, and shareholders) ____

7. Total number of professionals (including partners, proprietors, shareholders and other CPAs) ____

8. Total number of personnel ____

Applicant's statement: To the best of our knowledge and belief, the information submitted herewith is true and correct. We agree to be governed by and comply with the membership requirements and the rules and regulations as established from time to time by the PCPS Executive Committee, including the payment of dues and the submission of peer review reports for the PCPS public file.

Firm

Signature

Date

Area code and telephone number

PCPS firms must also be enrolled in an approved AICPA practice monitoring program. If your firm is already enrolled in the AICPA Peer Review Program or in SECPS, this enrollment will not change. If your firm is not enrolled in a program, you will need to enroll separately in the program of your choice.

*

PCPS annual dues = \$25 per CPA, Maximum \$500.00.

Mail or FAX application form to PCPS at the American Institute of Certified Public Accountants, Harborside Financial Center, 201 Plaza Three, Jersey City, New Jersey 07311-3881, tel. (800) CPA-FIRM, FAX (800) FAX-1112

YOUR VOICE IN WASHINGTON

Taxpayer confidentiality bill introduced in Senate

Taxpayers moved a step closer to winning expanded confidentiality rights on March 10, 1998, when Senator Connie Mack (R-FL) introduced a taxpayer confidentiality bill (S. 1737) in the Senate. The accounting profession has now been joined in its battle to expand taxpayers' confidentiality rights by a number of other organizations ranging from the National Taxpayers Union and the National Federation of Independent Business to the National Cattlemen's Beef Association.

S. 1737 will, in general, make confidential the tax advice taxpayers receive from anyone who is authorized to practice before the IRS. The bill is similar (except for some modifying technical language) to the provision the House passed last year as part of its IRS restructuring bill.

The Institute's aim is to have the Senate Finance Committee include S. 1737 in the Committee's IRS restructuring bill. As a member of the Finance Committee, Senator Mack is perfectly positioned to champion his bill's inclusion.

Generation skipping transfer tax proposal developed

The AICPA, in conjunction with the American Bar Association, American Bankers Association, and American College of Trust and Estate Counsel, has drafted a legislative proposal to address the significant potential liability now being faced by practitioners in all-size firms due to missed generation skipping tax (GST) exemption allocations on gift tax returns. (The original bill used by the multi-professional group was a proposal developed earlier by the AICPA.)

Currently, missed allocations create significant potential GST liability and traps for both taxpayers and practitioners. Taxpayers and their families may not discover a missed allocation for many decades. At that point, the excessive GST liability to the family as a result of the missed allocation may have increased exponentially. Many practitioners are considering the preparation of gift tax returns to be too risky, which could deprive taxpayers of needed professional advice at a realistic price. This development also can seriously affect the IRS in its administration of the tax system.

This proposal would provide an automatic allocation of the GST exemption to certain kinds of transfers common to the average taxpayer. Those taxpayers who do not want the automatic allocation could elect out of it. Included in the proposal are Reg. Section 9100 relief and substantial compliance provisions for taxpayers who inadvertently missed the allocation but intended to have it apply. The proposal would provide retroactive allocations in situations where there has been an unnatural order of death, and also would provide for severing trusts into exempt and non-exempt shares when appropriate.

The Institute thinks the proposal is a winner for taxpayers, tax advisors, and the government. The proposal will be on its way to Capitol Hill shortly, where it should be well received and scored as revenue neutral. The plan is to have it included in any tax bill Congress enacts this year. ✓

AICPA CONFERENCE CALENDAR

Tax Strategies for the High Income Individual

May 6-8—The Fairmont, New Orleans, LA

Recommended CPE credit: 16 hours

(Optional session on **May 6**:

Additional CPE credit: 7 hours)

Professional Practices

May 18-19—Bally's, Las Vegas, NV

Recommended CPE credit: 16 hours

Employee Benefit Plans

May 18-20—Fountainebleau Hilton, Miami Beach, FL

Recommended CPE credit: 24 hours

Practitioners Symposium

May 31-June 3—Caesars Palace, Las Vegas, NV

Recommended CPE credit: 32 hours

Assurance Services

June 4-5—Caesars Palace, Las Vegas, NV

Recommended CPE credit: 16 hours

Spring Tax Division Meeting

June 8-10—Caesars Palace, Las Vegas, NV

Recommended CPE credit: 8 hours

Investment Planning

June 11-12—JW Marriott, Washington, DC

Recommended CPE credit: 16 hours

Tech '98 Computer & Technology

June 14-17—Hilton, New Orleans, LA

Recommended CPE credit: 24 hours

Not-for-Profit

June 18-19—Grand Hyatt, Washington, DC

Recommended CPE credit: 16 hours

(Pre-conference optional program on **June 17**

Recommended CPE credit: 4 hours)

Bankruptcy

July 9-10—JW Marriott, Washington, DC

Recommended CPE Credit: 16 hours

Advanced Estate Planning

July 22-24—Westin Harbour Castle, Toronto, Ontario, Canada

Recommended CPE credit: up to 35 hours

National Advanced Accounting and Auditing Technical Symposium

July 23-24—Royal York, Toronto, Ontario, Canada

Recommended CPE credit: 18 hours)

(Optional program on **July 22**

Recommended CPE credit: 4 hours)

National Healthcare Industry

July 27-28—Grand Hyatt, Washington, DC

Recommended CPE credit: 16 hours

To register or for more information, contact AICPA Conference Registration, tel. (800) 862-4272.

USING TESTS TO TARGET TOP TALENT

Statistics show that each wrong hiring decision can cost a firm from \$5,000 to \$10,000. This would include the costs of advertising, interviewing, and checking references (if you can get them), and the time spent by other staff members in orienting, training, and supervising the new employee.

Rather than relying on references to qualify prospects, which often amounts to obtaining little more than a confirmation of the dates of employment and the person's position title, firms might consider adopting a pre-employment testing program.

An effective testing program allows you to identify candidates who are qualified for the open positions in the firm, eliminates time-consuming interviews of unqualified candidates, and reduces the chances of your encountering subsequent performance problems if you do hire someone.

Several testing options exist. You might select one or combine several methods to meet your firm's personnel needs.

Anyone can indicate knowledge of professional requirements or of a particular process or procedure during an interview. So, your real need is to more accurately determine the depth and currentness of each candidate's knowledge in the job area for which he or she is applying. One way to find out is to develop and use case studies based on situations that candidates would likely encounter in those positions at your firm. Testing the candidate's knowledge might involve, for example, your

- Describing an audit situation and asking the candidate how to apply the appropriate standards governing it.
- Documenting a client tax problem and asking the candidate to solve it.
- Asking the candidate to discuss the procedure for installing a network card in a laptop computer.
- Requesting the candidate describe the proper procedures involved in conducting a performance appraisal.

Once you have determined the level of the candidates' knowledge, you need to find out whether they have the skills to apply what they know. Again, you might use real-life situations—preparing a tax return, creating a balance sheet, counseling a subordinate, or marketing the firm's services, for example—and ask the candidates to perform the tasks as if they were already on the job. Here are some ideas.

- Create a tax return that contains some errors and ask the candidate to identify and correct any mistakes he or she finds.
- Provide a balance sheet from a financial statement containing built-in format and footing errors and ask the person to correct them using a sample of the firm's standard format.
- Relate an experience with an individual who is delinquent in preparing his time sheet. Then ask the candidate to role play a solution to improve compliance.
- Describe a failed marketing attempt and ask the candidate to show what he or she would do differently.

Personal characteristics

On-the-job success requires more than just knowledge or

technical skills. Firm personnel need to be able to interact effectively with other people. You should, therefore, find out whether candidates have the ability to communicate well, demonstrate honesty and integrity, are willing and able to follow the direction of others, and whether they pay attention to detail.

Many professionals rely on general impressions when determining such characteristics. You can improve the accuracy of such general impressions through testing.

Present a situation in which candidates would likely find themselves if you were to extend an offer of employment. Ask them to demonstrate the professional characteristics necessary to succeed by

- Writing down what they expect to achieve during their first year of employment with the firm (to determine compatibility of goals).
- Describing their reaction to a situation, such as an unauthorized client demand for audit information, that would cause them to compromise their professionalism (to determine integrity).
- Describing the ideal supervisor or manager, as well as the worst ones for whom they have worked in the past (to determine interpersonal skills).
- Following to completion each step in a detailed procedure (to determine the ability to follow instructions and measure attention to detail).

Using standardized tests to predict success

There are a variety of standardized tests on the market today (see sidebar) that can be of help when used in conjunction

Standardized Tests

Predictive Index is based on proven behavioral science techniques and can be used in-house to identify workplace-related strengths and weaknesses. Takes ten to fifteen minutes to administer. Contact D. B. Scholl, Inc., tel. (610) 431-1301.

Comprehensive Personality Profile compares individual results to results within the normative database, resulting in a summary of strengths, improvement opportunities, and supervisory recommendations for each trait. Contact Wonderlic Personnel Test, Inc., tel. (800) 300-3767.

Transition-to-work Inventory is a job placement system for workers with severe disabilities. It presents work activities and conditions that may require special accommodation. Contact The Psychological Corporation, tel. (800) 228-0752.

Word Rater/Accurater measures keyboard speed and accuracy, and differentiates between fast but careless, and slow but accurate word processors. Contact London House, tel. (800) 221-8378.

Skills Ability Sales Ability Test helps determine the sales ability and skills of prospective employees and assists in the development of training programs. Contact O'Neil Companies, tel. (800) 999-9111.

with thorough interviews, reference checks, and one or more of the customized approaches described above.

Before using any standardized test, request written information from the supplier regarding its validity. (This documentation should be retained to defend against any potential bias claim.) If the supplier cannot validate the test, avoid it.

You can also develop your own database of information by administering the same test to members of your current workforce. An average of these results can be compared to the results generated by candidates to help determine how they measure up.

Because of the possible impracticality of administering tests to all applicants for a position, consider administering the same test only to candidates who meet the requirements of the position outlined in the job description. Determine each individual's job readiness during initial interviews, then make sure the firm administers the same test to all those qualified for the position during subsequent interviews. This

ensures that the firm has not unnecessarily exposed the practice to discrimination charges by anyone in the group of qualified candidates. Again, retain applications and test results in case of any such claims.

The bottomline

Experience shows that using tests to confirm candidates' qualifications and determine the best person for a job pays long-term dividends. With more information regarding staff's future success, firms experience less turnover and accompanying costs, and can usually improve the level of services clients receive. All in all, using tests to target top talent seems to be well worthwhile. ✓

—by **Jayne E. Osborne**, *Administrative Strategies*, 73 Hillside Avenue, Nutley, New Jersey 07110, tel. (973) 667-2602



BOOKKEEPING SERVICES ARE NOT WITHOUT RISK

When a CPA firm is small and resources are limited, it's often essential that each employee performs a multitude of functions to keep down expenses. Yet, it is critical for both the client and the firm that the basic internal checks and balances necessary to provide proper client accounting services are consistently maintained.

Failure to implement internal controls and supervision for employees can quickly result in a variety of malpractice claims, even for basic bookkeeping engagements. Following is an example of a real life malpractice claim and some risk management guidelines which could help CPAs to avoid similar legal confrontations.

The case: A small CPA firm was engaged by a local home health care organization to perform various bookkeeping and payroll services. A college accounting student was hired part time by the firm to function as the client's controller and to assist the client with installing various personal computer software. As controller, the part-time employee was given full responsibility for the client's financial and bookkeeping activities, while one of the CPA firm's partners retained check-signing authority.

Although the engagement initially ran smoothly, it later became difficult to get checks signed on a timely basis; therefore, the firm's part-time employee was given this responsibility. The check processing got back on track and went well for over a year until a firm partner noted the employee's performance was declining and certain tasks were neglected. A

second part-time employee was hired to assist with certain duties, including the payroll and general disbursements bank account reconciliations.

While reconciling accounts, the new employee discovered an embezzlement. The original part-time controller was issuing checks to his wife, who did not share his last name and was not known by any of the client's or firm's personnel. Further investigation led to the discovery that over \$100,000 was fraudulently taken over an eighteen-month period. The CPA firm was sued by the client and ultimately found responsible for the actions of its employee.

The point: Firms providing bookkeeping or accounting services need to ensure that adequate internal controls are in place over the activities of their employees. The CPA firm is responsible for its employees' professional actions; therefore, careful segregation of duties is necessary to prevent employees from gaining total control over transactions from start to finish.

Additionally, adequate supervision of employees is an integral part of a firm's internal controls and should not be overlooked. No matter how basic or limited the scope of the assignment may be, the firm needs to have a clear understanding of what its employees are actually doing and must supervise those activities. When paired with reference and background check procedures for new employees, this careful preparation and scrutiny of clients' accounting functions will help to ensure client satisfaction with the firm's services and minimize malpractice allegations. ✓

This article should not be construed as legal advice or a legal opinion on any specific factual situation. Its contents are intended for general information purposes only.

—by **John McFadden**, CPA, CFE, AICPA Professional Liability Insurance Program, CNA Pro, CNA Plaza, 36 South, Chicago, Illinois 60685, tel. (312) 822-4416

EVALUATING CLIENTS

In "Making Efforts to Retain Clients," (see the October 1997 *Practicing CPA*), Donald B. Scholl, a West Chester, Pennsylvania, consultant to the profession, suggested that a better understanding of each client/firm relationship might result if the partner and staff who work on the engagement completed a client evaluation form, such as the one that accompanied the article. A number of readers subsequently asked about the points assigned each item, how to score the result, and about customizing the form—applying different criteria and weights—to suit individual practices.

The idea for such an evaluation form is well established. James W. Grimsley, a La Junta, Colorado, CPA, included one in his December 1978 article, "Client Evaluation." Charles B. Larson, CPA, a St. Joseph, Missouri, consultant, published an earlier version of the form in his and Joseph W. Larson's book, *Innovative Billing and Collection Methods That Work* (Burr Ridge, Illinois: Irwin Professional Publishing, 1994). A client evaluation questionnaire may also be found in chapter 204 of the AICPA *Management of an Accounting Practice Handbook*.

Customizing the form

Mr. Scholl explains that the form used here and in the previous article resulted from modifications made to earlier versions so that some criteria would have negative scores. He says that several issues were viewed to be of sufficient negative impact to offset positive scores in other categories. References to annual fee levels were eliminated because these figures quickly date and because absolute dollar figures might not reflect a client's continual referrals of other business.

Mr. Scholl believes practitioners will need to decide for themselves what weights to assign certain categories. He suggests making modifications to the criteria and weights based on the activities of the practice. For example, if you are running a small-business practice, where your primary interest is write-up and tax work for such clients, you might rate bookkeeping and compilation reports higher than the accompanying form's 2 and 5.

Mr. Larson believes the client evaluation form ultimately reflects the values of the firm. For a young firm aggressively seeking new business, the "Client Beats Drum for Us" items may command more points than other categories. For an older, more mature firm, "Client Needs This" may be more significant. He suggests that to make the form effective, firms adapt it to reflect their own situations.

There may be categories on the accompanying form that some firms should delete. Mr. Larson says "Client's Information" typically addresses general accounting clients or perhaps tax clients and may not be relevant for a primarily consulting practice. Similarly, "Client's Self-Indulgence" may not be relevant to a practice that deals primarily with audit clients or, perhaps, governmental

agencies. (Mr. Larson thinks "Collection of Fees" may be of no concern to those who have read his book—they collect fees in advance.)

Insights into firm/client relationships

The client evaluation process has other important benefits. Mr. Larson observes that while the results highlight some situations not previously recognized, the time partners spend making decisions about assigning points fosters greater insight into the firm/client relationship.

"The first year, our client evaluations were conducted by partners," he says. "In subsequent years, we involved staff in the process. We not only gained insights into our client relationships, but the staff learned a great deal about the firm's needs and firm/client relationships, generally."

The process enables you to identify your top ten clients. "Take care of them," Mr. Larson advises. You will also find out who your weaker clients are. "Remedy the weaknesses or consider terminating the clients," he says. "You don't make money with bad clients."

Mr. Larson says the client evaluation process produced surprises. Some of the clients that partners thought were the best had weaknesses. They addressed those problems. And some clients the partners had taken for granted had surprisingly high scores. They looked at these clients in a new light. Typically, the partners found new services that they should provide clients, and service aspects, such as timeliness, that deserved greater emphasis for certain clients. Again, they made immediate changes.

Other firms implementing this process apparently found that they didn't have the blue chip practice they thought they did. It called attention to providing additional services clients needed and for which they were willing to pay.

Other important benefits

Mr. Larson believes this evaluation procedure can speed up cash flow and significantly improve a firm's profitability. In addition, it may be an important weapon against lawsuits. The same problems that result in "bad clients" are usually present when litigation rears its head.

The process may yield insights about individual partners, too. An analysis of each partner's book of business may reveal why one partner is the firm's rainmaker and another has outstanding realization. It may also draw attention to weak areas that can be improved. The possibilities are endless.

On this form, the maximum score a client could receive is 110 and the minimum is -43. Mr. Scholl thinks that as a general consideration, a score of 25 or less would seem to indicate a highly suspect client; 26 to 50, that you need to work on the relationship; and 51 and higher, a satisfactory client. Modifications to the categories or points would necessitate changes in the maximum and minimum scores and in the client category point levels. ✓

CLIENT EVALUATION

Name of Client _____ Partner/Evaluator _____

Date _____

(Circle Only One Number)

Client's Information	Points	Client Beats Drum for Us	Points
Hopeless or always late	-2	Never	-2
Scattered but workable	2	Would if could	1
Needs training	4	Not recently	2
Good	6	At times	5
Excellent	8	Every opportunity	10
Client's Potential		Client Wants This	
Terminating	-5	Minimum service (low fee)	1
Decreasing	-2	Security from IRS	2
Level	2	Counseling	3
Growing	8	Timely service	4
Unlimited potential	15	Direction and tax planning	5
Client's Attitude Toward IRS		Client's Self-Indulgence	
Neurotic	1	Spendthrift (self and family)	1
Hostile	2	Cheap	2
Apathetic	5	Frugal and economical	3
Wants things right	8	Liberal	4
		Controlled first class	5
Client Needs This		Client's Attitude Toward Our Staff	
Bookkeeping	2	Hostile	1
Compilation reports	5	Lukewarm	2
Audit and review reports	10	Wants a friend	3
Special services (estate, systems)	12	Polite and businesslike	4
Big league (unlimited future)	15		
Collection of Fees		Liability Exposure	
May never receive	-5	Good chance of loss	-20
Always 90 days late	-2	Possible	-5
Pays within 45 days	5	Not likely	2
Pays when receives bill	10	Almost impossible	5
Fee Structure		Financial Stability (Line of Credit)	
Always complains (too high)	-5	Terrible	-10
Requires time and bill itemized	-2	Poor	-5
Usually accepts amount of bill	5	Good	5
Wants service and will pay for it	10	Excellent	10
Thinks we're the greatest (pays premium)	15		
Scoring		Points	
Total Points _____		Maximum	110
(Write Additional Comments on Back)		Minimum	-43
		25 points or less	Highly suspect
		26 to 50 points	Need to work with
		51 points or more	Satisfactory

MAP PRODUCTS SURVEY

The PCPS management of an accounting practice (MAP) committee would appreciate your completing the following survey to indicate your interest in two potential MAP products.

Audio Tapes — A series of twelve monthly 50-minute audio tapes on partner and firm management issues based on discussions with various managing partners.

Does this product interest you? ☐ Yes ☐ No

How much would you expect to pay for all 12 tapes? (Check one): ☐ \$50 ☐ \$75 ☐ \$100 ☐ \$125 ☐ \$150 ☐ \$175 or Over

Would you be interested in a CD-ROM version of this product for the same price? ☐ Yes ☐ No

Would you be willing to pay an additional \$49 for an optional 12 hours of CPE credit (1 hour per tape)? ☐ Yes ☐ No

Video Tapes — A series of eight 40-minute videos on professional skills development (such as client service attitude, presentation skills, communication skills), each based on an interview with a consultant who specializes in a specific topic. There would be no CPE option.

Does this product interest you? ☐ Yes ☐ No

How much would you expect to pay for each video? (Check one): ☐ \$50 ☐ \$75 ☐ \$100 ☐ \$125 ☐ \$150 ☐ \$175 or Over

General Information

Is your firm a member of PCPS? ☐ Yes ☐ No

Your position title (Check one): ☐ Sole Prop. ☐ Man. Partner ☐ Partner/Shareholder ☐ Sen. staff ☐ Other

Number of professionals in firm (Check one): ☐ 1 ☐ 2-5 ☐ 6-10 ☐ 11-20 ☐ 21-49 ☐ 50+

Please return survey by April 30, 1998, to Laura Inge at the Institute's New Jersey office, FAX (201) 938-3780, E-MAIL linge@aicpa.org

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